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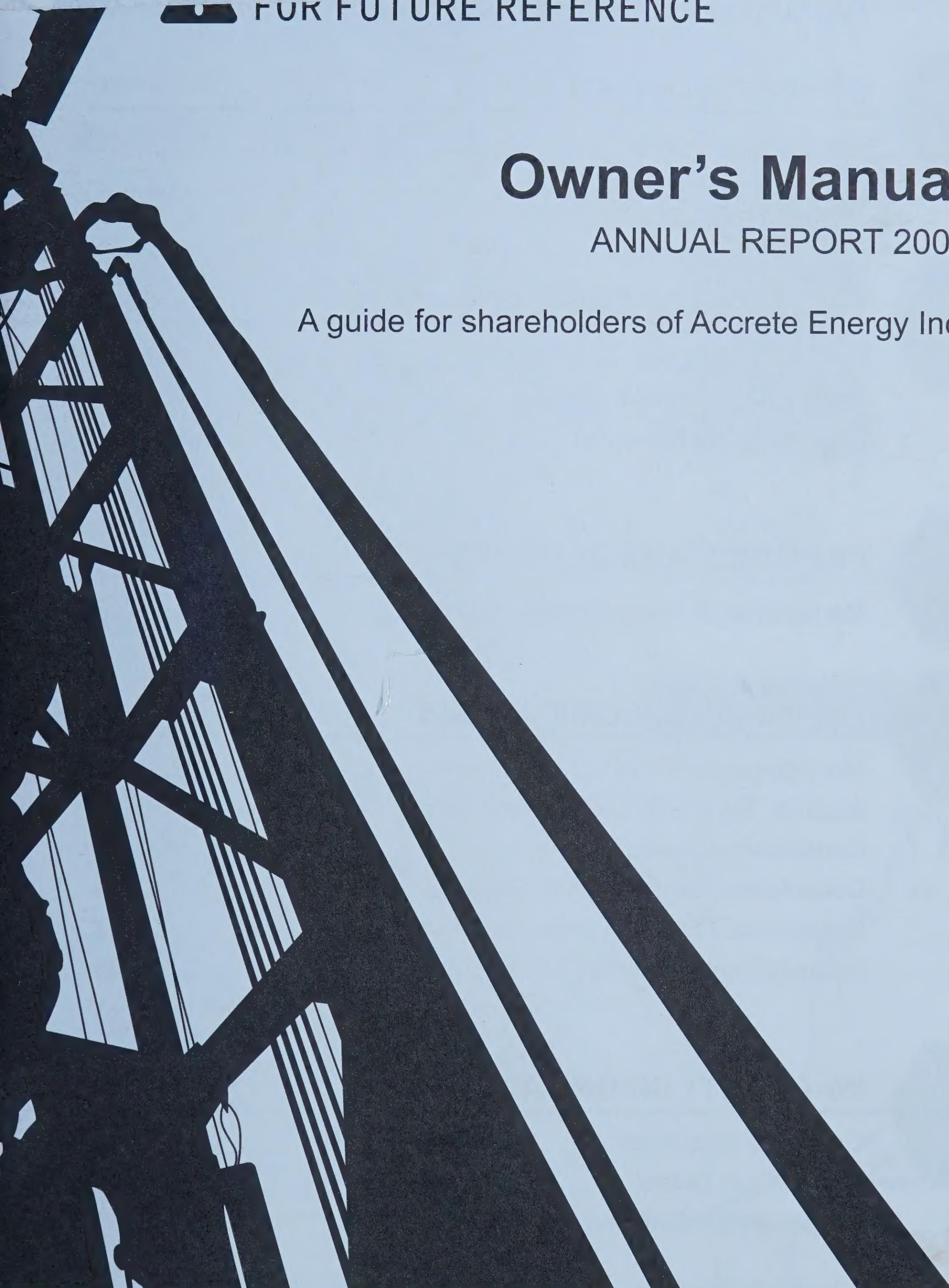
Owner's Manual

ANNUAL REPORT 2005

A guide for shareholders of Accrete Energy Inc.



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Accrete energy inc.

ACCRETE ENERGY OWNER'S MANUAL

Thank you for selecting Accrete Energy's Shareholders Manual. This guide will lead you through the 2005 year of a successful growing junior oil and gas exploitation and development company. Accrete has a focused, high potential prospect base in Alberta to fuel its growth. The information and illustrations found in this guide are those in effect at the time of printing.

GETTING STARTED

MANUFACTURER'S NOTE

To our shareholders,

The oil and gas industry enjoyed another spectacular year in 2005 as companies continued to take advantage of record commodity prices and healthy equity markets. Accrete Energy Inc., in its first full year of operation, executed its focused mandate of low risk exploitation and development. The Company spent $49 mm on drilling, completions, land acquisitions and facilities, yielding a success rate of 84% and resulting in stellar production and reserve growth.

Continued success in our Harmattan area, led to significant gains in reserves and production entirely through the drilling process. In May, the Company commissioned a gas compression facility, affording it the ability to undertake an aggressive drilling program which resulted in 23 oil wells, many of which have multiple reservoirs. Production from this field has outperformed our expectations to the extent that management is currently reviewing facility expansion.

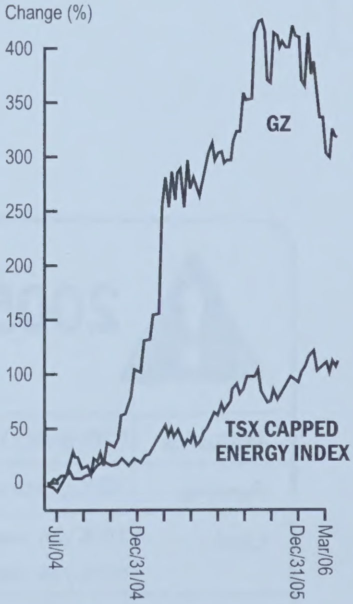
The Company increased its presence in the Claresholm area by further developing the Sunburst Formation gas pool discovery, commissioning a Company interest gas plant, and increasing our land position through three farmin transactions. The land base acquired under these farmin transactions will provide the basis for future exploration and development activity.

One gas well was drilled by the Company in the Boltan area. The well was completed in two zones and put on production in November with the startup of the Company interest compression facility. A recent management evaluation of this property revealed that this asset no longer met the Company's objectives. A decision has been made to rationalize the property, allowing the Company to redeploy capital in higher growth areas.

We are very proud of our 2005 reserve additions of nearly 6 million boe. This equates to reserve increases of 169% for the year and production replacement of 11 times. Notwithstanding drilling and completion cost increases of 20% and one time facility expenditures in excess of $13 million, finding costs were approximately $13/boe proven and $11/boe proven plus probable. The growth in production volumes (attributed directly to the commissioning of three major facility projects in 2005) had a profound impact on operating costs. We expect to keep these costs, including G&A under $7.50/boe for 2006. Unprecedented commodity pricing led to strong netbacks. Solid

Fig.1
President & CEO
Peter Salamon

ACCRETE'S PERFORMANCE



Accrete's shares consistently outperformed the TSX Capped Energy Index in 2005.

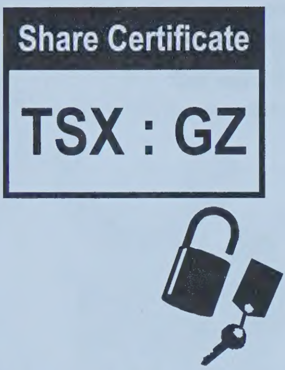


Fig.2
Please store your Accrete shares in a safe place.

finding costs and declining operating costs gave the Company a recycle ratio of 3 times.

Accrete's mandate from the onset was to exploit and develop specific oil and gas opportunities within a defined time frame. While not limiting our targets and expectations on certain deadlines, our approach has been to adopt a fast paced yet manageable activity level. Throughout 2005, wells in each of our core areas were shut-in as our operations group added facilities and conducted field simulations to maximize the overall efficiencies in these areas. This approach will allow us to realize our ultimate objectives in an expeditious and prudent manner.

Accrete's accomplishments are a direct result of the skilful talents and hands-on efforts of our dedicated staff. It is a pleasure to work in an environment of keenly motivated professionals. I would also again like to recognize Accrete's Board of Directors for their hard work, solid corporate governance and independent rational judgement on behalf of the shareholders and their constructive support for management and staff.

On behalf of the Board of Directors,

Peter Salamon
President
March 23, 2006

(See Fig. 1)

2005 INFORMATION CARD

Production	550% growth in comparative year ends
Reserves	162% growth on a proven + probable basis
Land	175% year over year growth in land holdings 515% year over year growth in option lands
Financial	Cash flow growth from $0.03/share in 2004 (seven months) to $0.89/share in 2005 Earnings growth from a loss in 2004 to $0.23/share in 2005 Equity financing – Raised $14.5 Million by issuing 2mm common shares at $7.25/share

TECHNICAL SPECIFICATIONS

LAND USE AND CARE

From its corporate inception in June 2004 with 152 boe/d of production, approximately 16,752 acres of working interest land and three exploratory farmin deals with industry partners, the Company has utilized the drill bit through successive farmin deals as its primary means of land acquisition within its core areas.

During 2005, the Company drilled a total of 15 wells under farmin earning terms, primarily in its Harmattan and Claresholm core areas, as a means to expand and build up its existing presence on these prospects. This land acquisition strategy has allowed the Company to add technically supported, prospective acreage to its asset base utilizing the drilling rig which we continue to hold under long-term contract. Additionally, this strategy has provided an effective alternative to competing for mineral interests at Crown sales, especially in these times of extremely competitive land sale prices within the industry. When we have chosen to compete at Crown sales for available mineral interests, we have typically been able to do so with the advantage of current drilling results to allow us to be more competitive in the bid process (see Fig. 3). Highlights of the acreage added to our asset base during 2005 are as follows:

HARMATTAN

Of the 23 wells drilled by the Company in developing and expanding this core area during 2005, 11 were farmin earning wells which resulted in additions of 8,320 gross acres (4,896 net) to our working interest inventory. At year-end, the Company also held 1,280 acres under option with the associated earning well expected to spud prior to the end of Q2 2006.

CLARESHOLM

The Company added 4,000 acres of prospective lands through successful bids at Crown sales during 2005 in this core area. Also 3,840 gross (1,920 net) acres were earned through farmin terms prior to year-end, an additional 6,400 gross (3,200 net) acres were added through farmin commitments which were satisfied during Q1 2006, and the Company continues to hold 16,320 acres under option with the initial earning wells expected to be drilled during Q2 2006.

BOLTAN

The Company entered into two farmin arrangements to increase its holding in this area through the drilling of the 13-10-59-2-W6M well offsetting our original producer at 9-9-59-2-W6M during 2005 (Accrete cost interest 42.5%).

Fig.3
Accrete has a large prospective land position in Alberta. Land deals are negotiated with care utilizing Accrete's experience and technical knowledge of the areas.

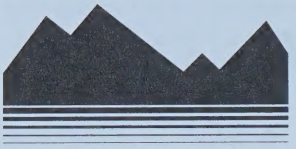


Fig.4
Accrete's land is focused primarily in Southern Alberta, providing year round access.

DEVON

The Company has committed to drill an earning well pursuant to farmin terms with an industry partner on 1,920 acres of holdings in the Devon Area of Alberta, near the southeast boundary of the City of Edmonton. The well is in a logistically sensitive area and the Company has made significant headway with respect to landowner and regulatory approvals. The well is expected to spud before year end of 2006. Significant follow-up potential exists on this land base in the event the earning well is successful.

LAND HOLDINGS BY AREA (GROSS ACRES)

Area	December 31, 2004	December 31, 2005
Atlee-Buffalo	1,280	1,280
Boltan	8,960	8,960
Claresholm	3,200	15,520
Harmattan	7,360	16,323
Jumping Pound	2,032	93
Peco	1,920	1,920
Pouce Coupe	640	1,068
Saddle Hills	640	1,280
Strachan	1,280	1,280
Total	27,312	47,724

OPTION LANDS (GROSS ACRES)

Area	December 31, 2004	December 31, 2005
Claresholm	1,920	19,520
Devon	1,920	1,480
Harmattan	480	1,280
Total	4,320	22,280

Before delving into Accrete's operations, please wear the necessary protective apparel. Clothing must be sturdy and snug fitting, but allow complete freedom of movement. Wear an approved safety hard hat to protect your head. Wear sturdy boots with non-slip soles. Steel-toes are strongly recommended.

EXPLORATION FUNCTION

OVERVIEW

Accrete's success in 2005 is a result of technical expertise applied to areas with multi-zone prospects and controllable infrastructure. The Company has continued to focus on its three core areas at Harmattan, Claresholm and Boltan. (see Fig.6)

In total, 32 (21.8 net) wells were drilled in 2005 resulting in 27 (18.4 net) oil/gas wells. Eleven of those wells have productive capability in multiple zones.

Fig.5
Accrete holds a drilling rig under long-term contract. Ensure drill follows the direction of the arrow. Improper direction of drill can result in embarrassment, injury or loss of shareholder interest.

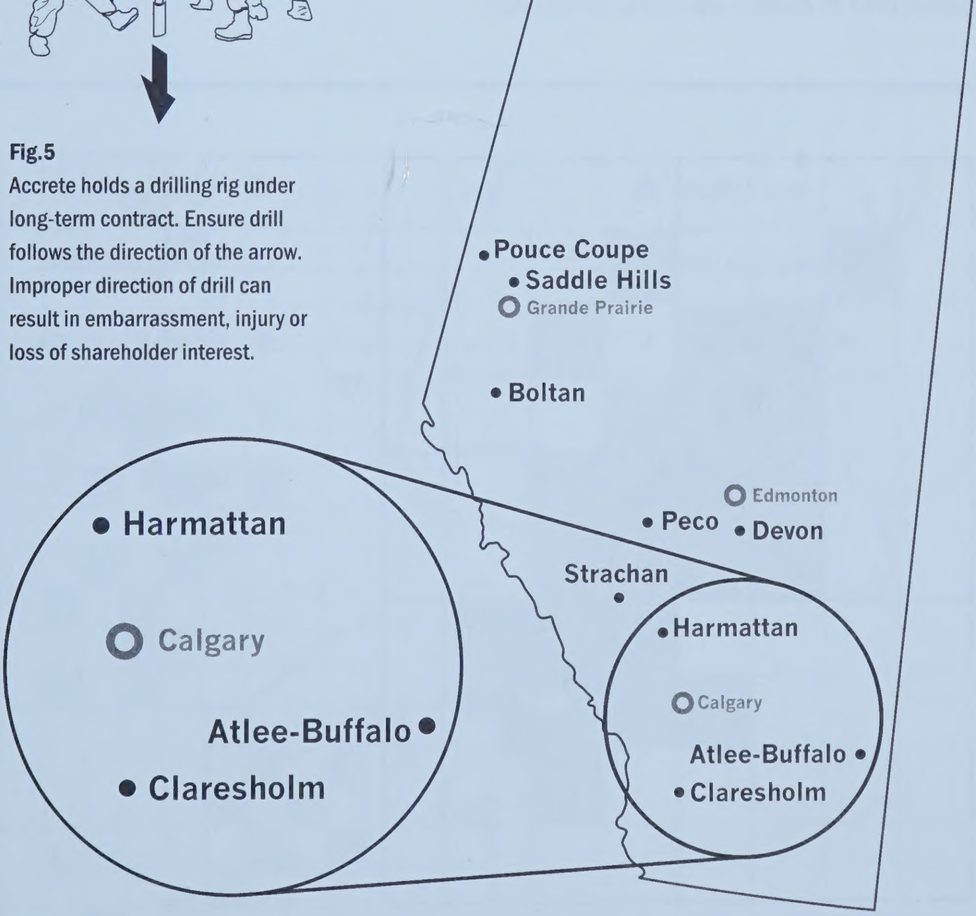


Fig.6
Location Map

HARMATTAN

Harmattan is located approximately 90 kilometres northwest of Calgary and 10 kilometres south of the town of Sundre. This condensate rich, sweet gas and oil property is the Company's largest core area. Commissioning of the Company's gas compression facility in May accelerated its drilling plans to maximize the facility throughput. The facility is now at maximum capacity and production from this area accounts for over 65% of total Company production.

Accrete drilled 23 (15.6 net) wells of which 22 (14.8 net) wells were successful for a 95% success rate. Of the 22 successful Lower Cardium oil wells drilled, 8 wells penetrated a new Upper Cardium reservoir which has defined a new pool for the Company. In addition, three wells were drilled to explore for deeper targets and found 3 new pools in the Basal Quartz, Viking, and Edmonton formations. Continued success in this area has led to the identification of a further 25 development locations, 11 of which have dual zone development targets. Facility expansion plans are being considered to handle additional production.

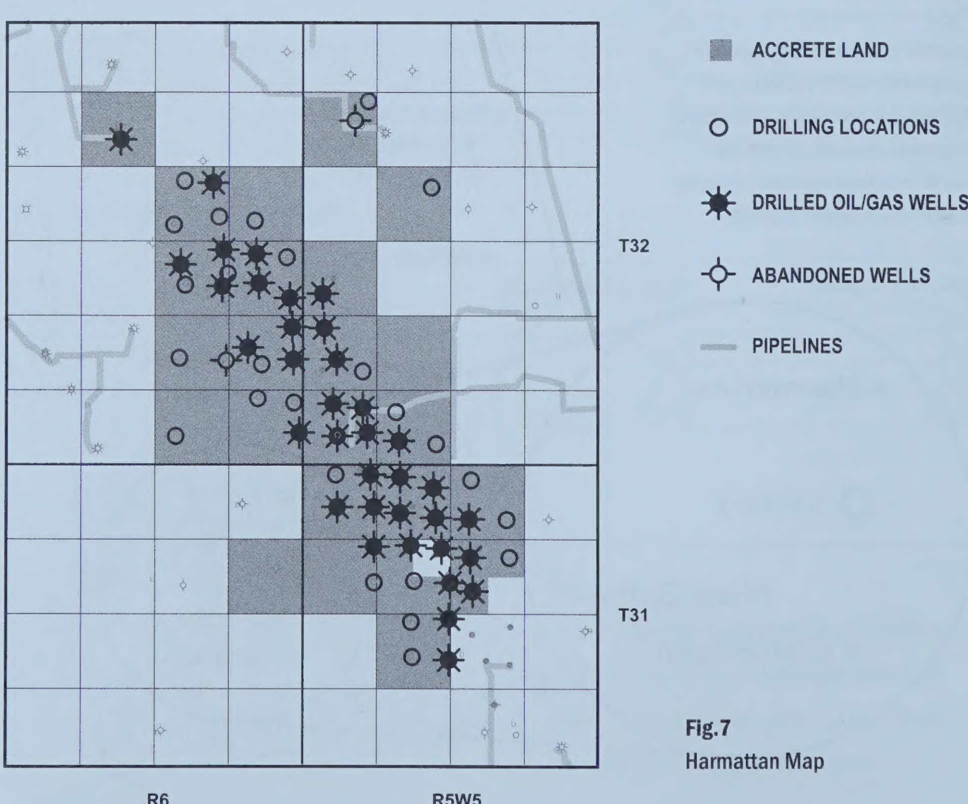


Fig.7
Harmattan Map

CLARESHOLM

The Company's Claresholm area is located 150 kilometres south of Calgary, approximately 10 kilometres east of Claresholm. The commissioning of a 10 mmcf/d gas compression facility in September in the Company's second core area, allowed for accelerated drilling plans on its original seven section core block. 6 (4.7 net) wells were drilled, resulting in 2 (1.6 net) gas wells, 2 (1.6 net) potential gas wells and 2 (1.5 net) dry holes. The two gas wells have been tied in and have combined production of 220 boe/d (182 boe/d net). The two potential gas wells missed their original targets, however, shallower horizons were encountered which appear promising and will be further evaluated.

In addition, through land sales, three farmin opportunities, and seismic review options, the Company has acquired an additional 26,720 acres of option lands and over 150 square kilometres of 3D seismic in the area. The recently acquired seismic data and available option lands will provide the Company continued growth opportunities in 2006.

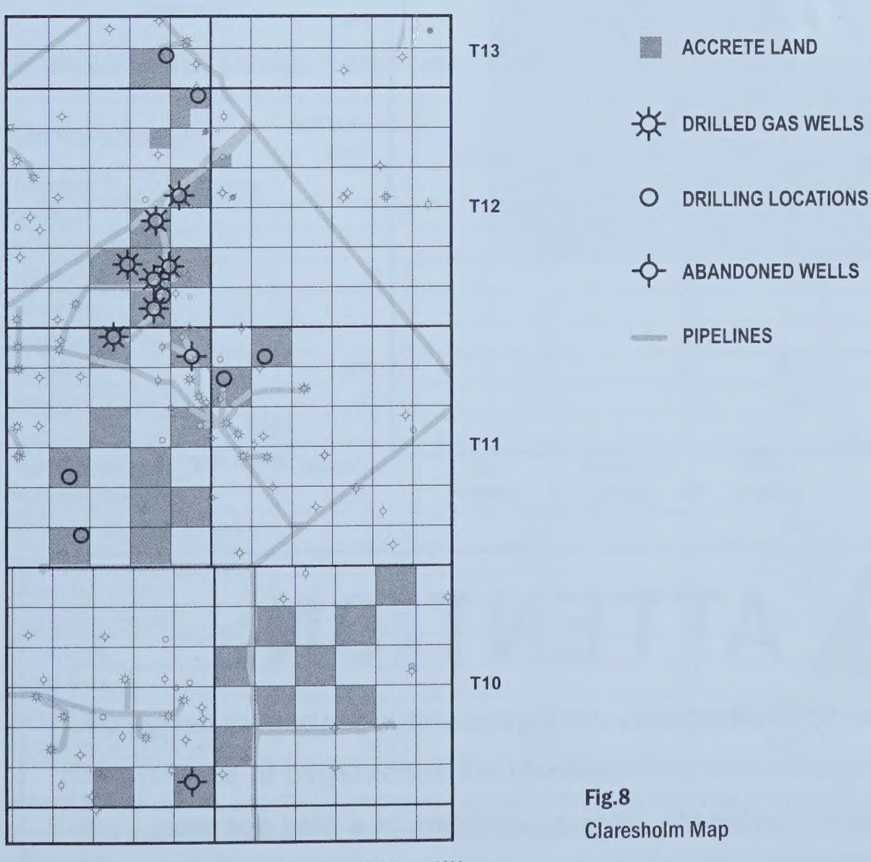


Fig.8
Claresholm Map

BOLTAN

The Company's Boltan area is located approximately 125 kilometres south of Grande Prairie and 50 kilometers east of Grand Cache. At the beginning of 2005, Accrete had one producing gas well on 11 sections of land in this limited access area. A second gas well (.42 net) was drilled in early 2005 and encountered multiple zone gas potential. Two zones were completed and combined production is 127 (54 net) boe/d. Inconsistent take away capacity in the area caused the Company to change delivery points and construct its own 8 mmcf/d production facility. The Company participated in a 3D seismic shoot over the area and has identified a number of follow up locations on these lands.The Company has recently made a decision to rationalize this property which will allow Accrete to concentrate its efforts on its higher growth core areas.

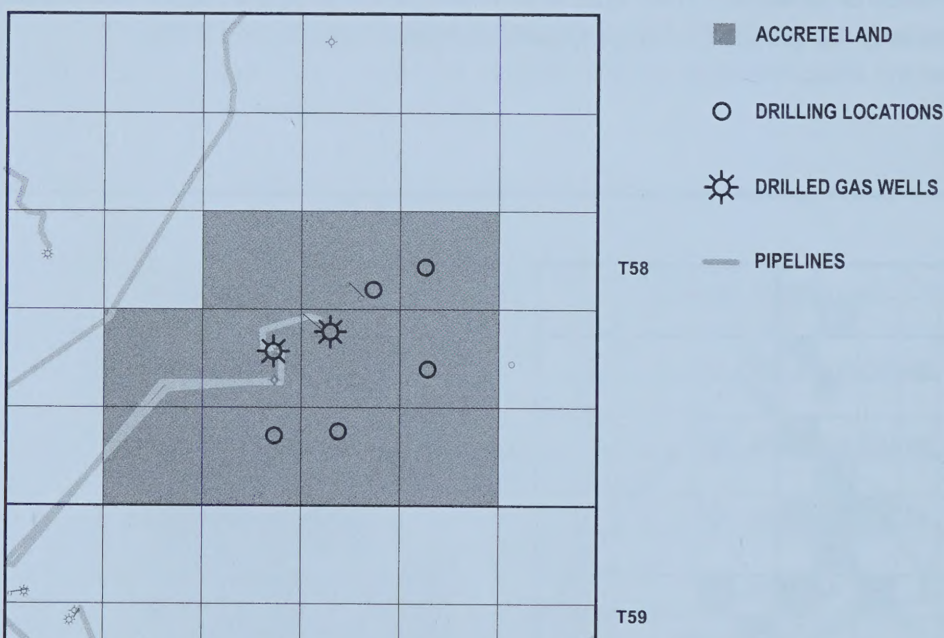


Fig.9
Boltan Map

ATTENTION:

Operating an oil industry drilling apparatus can be very dangerous. Only experienced professionals are encouraged to operate such machinery under the close supervision of a field operator.

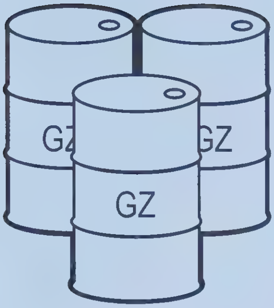


Fig.10
Although actual barrels are not typically used for storing and shipping petroleum products, the barrel is still the standard measurement unit of choice. One barrel is approximately 160 litres.

Barrels pictured not actual size.

UNDERSTANDING RESERVES

In total Accrete increased proved plus probable reserves to 8,770 mboe at the end of 2005, 162 percent increase from the 3,343 mboe at December, 2004, Accrete's last year end.

The drilling program added 21.6 bcf of natural gas to bring the Company's proved plus probable natural gas reserves to 34.7 bcf at the end of 2005, up from 14.5 bcf at December 31, 2004. Proved plus probable oil and natural gas liquids reserves increased to 2,992 mbbls from 988 mbbls. Other characteristics of the Company's year-end 2005 reserves include the following:

- Total proved reserve additions (before revisions) of 4.43 mm boe replaced production of 526.5 mboe.
- Proved undeveloped reserves account for 20 percent of the total proved reserve base.
- Proved non producing reserves account for 1.9 percent of the total proved reserve base.

Reserves at Harmattan and Claresholm were risked by the independent reserve evaluators in keeping with the National Instrument 51-101 standards with the reserve evaluator risking reserves due to the lack of production history to date.

RECONCILIATION OF CHANGE IN RESERVES

Total Proved Reserves	Natural Gas (bcf)	Oil (mbbls)	Heavy Oil (mbbls)	NGLs (mbbls)	BOE (mboe)
December 31, 2004 Opening	7.8	2.8	0	694.4	1,947.7
Revisions	0.76	(1.4)	0	(107.5)	17.8
Drilling Discoveries	5.1	0	0	506.9	1,355.4
Drilling Extensions	11.59	0	0	1,126.0	3,057.7
Divestitures	0	0	0	0	0
Acquisitions	0	0	0	0	0
Production	(1.9)	0.5	0	(205.7)	(526.5)
December 31, 2005 Closing	23.29	0.9	0	1,968.9	5,852.0

Total Proved plus Probable Reserves	Natural Gas (bcf)	Oil (mbbls)	Heavy Oil (mbbls)	NGLs (mbbls)	BOE (mboe)
December 31, 2004 Opening	14.1	3.3	0	984.5	3,343.2
Revisions	0.82	(1.3)	0	(126.3)	8.5
Drilling Discoveries	7.91	0	0	846.3	2,164.2
Drilling Extensions	13.73	0	0	1,491.5	3,780.6
Divestitures	0	0	0	0	0
Acquisitions	0	0	0	0	0
Production	(1.9)	(.5)	0	(205.7)	(526.5)
December 31, 2005 Closing	34.67	1.6	0	2,990.3	8770

Under NI 51-101 reserves definitions, estimates are prepared such that the full proved plus probable reserves are the most likely scenario. The tables and comparisons in this report reflect current proved plus probable reserves versus previous proved plus probable reserves reported by Accrete as of December 31, 2005 year-end.

Investors should also note that barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

2005 RESERVES SUMMARY

	Natural Gas Gross (bcf)	Natural Gas Net (bcf)	Light Oil Gross (mbbls)	Light Oil Net (mbbls)	Heavy Oil Gross (mbbls)	Heavy Oil Net (mbbls)	NGLs Gross (mbbls)	NGLs Net (mbbls)	Total Gross (mboe)	Net (mboe)
Proved Producing	18.85	14.33	0.9	0.9	0	0	1,423	1,029	4,566	3,418
Proved Non Producing	0.61	0.46	0	0	0	0	11	9	113	86
Proved Undeveloped	3.83	2.8	0	0	0	0	536	378	1,174	845
Total Proved	23.29	17.59	0.9	0.9	0	0	1,969	1,416	5,852	4,348
Total Probable	11.37	8.58	0.7	0.7	0	0	1,021	742	2,918	2,173
Total Proved & Probable	34.67	26.17	1.6	1.5	0	0	2,990	2,158	8,770	6,521

Gross reserves are the total of the Company's working interest plus royalty interests owned by others. Net reserves are gross reserves net of royalty interests owned by others.

NET PRESENT VALUE OF RESERVES (BEFORE TAX)

($ thousands)	Undiscounted	PV10	PV12	PV15
Proved Producing	136,066	94,322	89,440	83,226
Proved Non-Producing	3,831	1,706	1,510	1,280
Proved Undeveloped	27,811	18,523	17,286	15,680
Total Proved	167,708	114,550	108,236	100,186
Total Probable	69,340	30,631	27,239	23,194
Total Proved & Probable	237,048	145,187	135,475	123,380

PRICE FORECAST

The reserve values on the previous page are based on the table of prices below. Prices at each property were adjusted for quality, heating content and transportation. Oil prices are the equivalent price of sweet light crude landed in Edmonton to that of West Texas Intermediate crude (WTI) in Cushing, Oklahoma after adjustments for transportation and the prevailing Canadian dollar exchange rate. Gas prices are based on the type of contract applicable. The NGL price was established for each property based on the gas stream recovered at the plant and wellhead for that property.

GLJ PETROLEUM CONSULTANTS LTD. PRICE FORECAST EFFECTIVE JANUARY 1, 2006

	Oil ($Cdn/bbl)	Gas (AECO-C) ($Cdn/mmbtu)	Pentanes + ($Cdn/bbl)	Propane ($Cdn/bbl)	Butane ($Cdn/bbl)
2006	66.25	10.60	67.00	42.50	49.00
2007	64.00	9.25	65.25	41.00	47.25
2008	59.25	8.00	60.50	38.00	43.75
2009	55.75	7.50	56.75	35.75	41.25
2010	54.00	7.20	55.00	34.50	40.00
2011	52.25	6.90	53.25	33.50	38.75
2012	52.25	6.90	53.25	33.50	38.75
2013	53.25	7.05	54.25	34.00	39.50
2014	54.25	7.20	55.25	34.75	40.25
2015	55.50	7.40	56.50	35.50	41.00
2016	56.50	7.55	57.75	36.25	41.75
2017+	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2/yr

FINDING AND DEVELOPMENT COSTS

Based on a capital expenditure program of $53.94 million for total Proved and $64.37 million for Proved and Probable, which includes future development costs, the Company's average finding and development costs for gross proven reserves are $12.34 per boe for proven reserves and $10.92 per boe for proven plus probable reserves.

	Proven (mboe)	Proven + Probable (mboe)
Opening Balance on December 31, 2004	1,948.0	3,343.0
Production in 2005	466.0	466.0
Remaining Reserves on January 1, 2006	1,482.0	2,877.0
Actual Reserves on January 1, 2006	5,852.0	8,770.0
Reserve Additions	**4,370.0**	**5,893.0**
Finding and Development Cost	**12.34 $/boe**	**10.92 $/boe**

ABOUT RESERVES:

Oil and gas reserves refer to oil and gas in the ground that can be recovered economically. Calculating reserves falls out of the operational range of Accrete Energy. In the event that Accrete Energy encounters a need for reserve calculations, it relies on independent engineering provided by GLJ Petroleum Consultants.

FEATURES AND BENEFITS

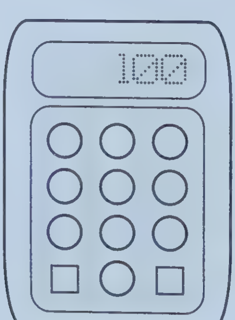


Fig.11

It is important for a public oil and gas company such as Accrete to pay close attention to the financial numbers.

The financial and benefits section is the nucleus of this annual report of Accrete's financial standing in 2005.

MANAGEMENT'S DISCUSSION & ANALYSIS

SUMMARY OF ACTIVITIES

Accrete was able to undertake its entire capital program, very few delays, despite poor weather conditions.

The Company drilled a total of 32 wells (21.8 net) during the year. Of these, 22 (14.8 net) were classified as oil wells, 5 (3.6 net) were classified as gas wells and 5 (3.4 net) were dry holes. A success rate of 84% was achieved.

During the year the Company constructed an extensive network of gathering lines, satellites and batteries together with compression facilities at Harmattan.

In September 2005, Accrete commissioned a gas plant and completed the tie ins at its Claresholm prospect.

In November 2005, Accrete completed the installation of a compression facility and modifications to its sales pipeline at Boltan.

In all, over $49 million was spent during 2005 on capital projects. Of this, $34 million was spent on drilling and completions seismic programs and general geological expenditures, $13 million was spent on processing, compression and gathering facilities and $2 million was spent on land acquisitions.

A reserve report prepared for the Company by its independent reserve evaluators, GLJ Petroleum Consultants "GLJ", as at December 31, 2005, indicates that 4.4 million barrels equivalent of proved reserves were added in 2005 resulting in a 200% increase in proven reserves since the end of last year. In addition, the report indicates that 5.9 million barrels equivalent were added to proven plus probable reserves, resulting in an increase of 162% over last years figures.

Production for the twelve month period ended December 31, 2005 averaged 5.0 mmcf/d of natural gas, 123 bbls/d of oil, and 325 bbls/d of natural gas liquids.

Over the nineteen months that Accrete has been in existence its production has increased from an initial rate of just over 150 to about 2,300 barrels of oil equivalent after consideration of the sale of the Boltan property. In addition to this, the Company has approximately 325 barrels of oil equivalent behind pipe that should be tied in late in the first quarter or early in the second quarter of 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis was prepared on March 15, 2006 and is management's assessment of Accrete's historical financial and operating results and should be read in conjunction with the audited financial statements for the year ended December 31, 2005 and the seven month period ended December 31, 2004.

The financial data presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Additional information may be found on the Company's web site at www.accrete-energy.com. The 2005 Annual Information Form which will be filed on or before March 31, 2005 and available on the SEDAR web site at www.sedar.ca subsequent to the actual filing.

Certain oil and gas properties of Olympia Energy Inc. (Olympia) were transferred to Accrete pursuant to a Plan of Arrangement involving it, Olympia and Provident Energy Trust Ltd. on June 1, 2004. Accordingly, the financial statements include comparative financial results for only the one month period ended June 30, 2004.

Accrete's operations are concentrated in the Harmattan, Claresholm and Boltan areas of Alberta.

BUSINESS ENVIRONMENT

Exploration and production companies found that the weather during 2005 severely impacted their ability to operate in the field in Alberta during most of the year. A longer than normal break up period, coupled with continued rainfall and flooding in many areas during the summer months coupled with an unusually mild winter curtailed field operations. During the short periods of favorable weather, service providers faced unprecedented demand as they cleared backlogs that had built up during the periods of inclement weather. Competition for suitable equipment during these periods was fierce and prices for field services escalated in response. World wide demand for such items as steel and cement further exacerbated the trend toward rising costs.

Notwithstanding poor weather conditions, Accrete was able to undertake all of its capital programs with few delays.

Record commodity pricing prevailed throughout 2005. This was attributable to increasing demand in flourishing new markets, production instability in significant producing areas and the weather.

FINANCIAL INFORMATION

Annual financial information

	3 months as at and for the period ended December 31,		12 months as at and for the period ended December 31,	7 months as at and for the period ended December 31,*
$ except for production / day, common shares & stock options	2005	2004	2005	2004
Total revenue	13,199,898	872,979	25,844,984	1,560,816
Production per day				
- Natural gas	8,810	1,262	4,966	1,057
- Oil	224	18	123	8
- NGLs	523	18	325	8
Cash flow from operations	6,991,000	170,925	13,536,486	281,525
- basic	0.46	0.01	0.89	0.03
- diluted	0.41	0.01	0.81	0.03
Earnings (loss) per share				
- basic	0.17	(0.03)	0.23	(0.07)
- diluted	0.16	(0.03)	0.21	(0.07)
Capital expenditures	13,616,647	11,396,386	49,318,103	17,587,115
Total assets	74,367,722	25,350,827	74,367,722	25,350,827
Net debt including working capital	27,862,224	-	27,862,224	-
Common shares outstanding	15,232,936	12,966,632	15,232,936	12,966.632
Stock options outstanding	1,465,845	926,845	1,465,845	926,845

** The Company commenced operations on June 1, 2004 when it acquired assets under a Plan of Arrangement entered into by Provident Energy Trust, Provident Energy Ltd., Olympia Energy Inc. and Accrete Energy Inc.*

QUARTERLY FINANCIAL INFORMATION

	2005 Quarter Ended				Year Ended
$ except for bbl/d & shares outstanding	March 31	June 30	Sept 30	Dec 31	Dec 31
Financial:					
Petroleum and Natural Gas Revenues	3,633,360	2,953,784	6,057,942	13,199,898	25,844,984
Cash Flow from Operations	1,905,265	1,405,753	3,442,855	6,991,000	13,536,486
Per Share Basic	0.14	0.09	0.22	0.46	0.89
Income/(Loss)					
Per Share Basic	0.05	(0.06)	0.06	0.17	0.23
Capital Expenditures	10,952,037	10,187,719	15,206,051	13,616,645	49,962,452
Wells Drilled - Gross	7	5	8	12	32
Wells Drilled - Net	5.0	3.3	6.1	7.4	21.8
Total Assets	35,719,800	43,576,587	61,524,657	74,367,722	74,367,722
Working Capital	(14,642,481)	(9,892,853)	(21,473,528)	(27,862,224)	(27,862,224)
Weighted Average Common Shares Outstanding					
Basic	13,232,936	13,606,562	15,232,936	15,232,936	14,328,826
Diluted	14,014,629	14,740,972	16,413,609	16,377,010	15,472,900
Employee Stock Options Outstanding	926,845	1,465,845	1,465,845	1,465,845	1,465,845
Operations:					
Natural Gas Production – mcf/d	4,281	2,267	4,462	8,810	4,966
Average Selling Price – Natural Gas - $/mcf	6.78	8.44	9.89	11.70	9.87
Oil Production – bbl/d	70	72	125	224	123
Average Selling Price – Crude Oil - $/bbl	52.36	82.32	75.18	69.13	70.23
NGL Production – bbl/d	226	217	333	523	325
Average Selling Price – NGL - $/bbl	33.84	34.06	35.34	46.75	39.50
Royalties at 6:1 - $/boe	8.63	8.45	14.05	18.89	14.38
Operating Expenses at 6:1 - $/boe	4.61	6.85	4.74	4.88	5.05
Field netback at 6:1 - $/boe	26.75	33.29	35.55	40.76	35.83
General and administrative expenses	588,791	625,780	500,548	1,163,495	2,878,614

	2004 Quarter Ended			Seven Months Ended *
$ except for bbl/d & shares outstanding	June 30 *	September 30	December 31	December 31
Financial:				
Petroleum and Natural Gas Revenues	197,505	490,332	872,979	1,560,816
Cash Flow from Operations	(76,866)	187,466	170,925	281,525
Per Share Basic	$(0.01)	$0.02	$0.01	0.03
Income/(Loss)				
Per Share Basic	(0.02)	(0.02)	(0.03)	(0.07)
Capital Expenditures	6,059,187	4,601,231	11,396,386	17,587,115
Wells Drilled - Gross	2	4	6	12
Wells Drilled - Net	1.80	3.16	5.5	10.5
Total Assets	11,851,229	12,996,324	25,350,827	25,350,827
Working Capital	2,926,143	(1,498,222)	(5,641,230)	(5,641,230)
Weighted Average Common Shares Outstanding				
Basic	9,732,936	9,732,936	12,966,632	11,123,123
Diluted	10,659,392	10,659,392	13,514,398	11,670,889
Employee Stock Options Outstanding	926,845	926,845	926,845	926,845
Operations:				
Natural Gas Production – mcf/d	913	896	1,262	1,057
Average Selling Price – Natural Gas - $/mcf	7.21	5.94	6.11	6.18
Oil Production – bbl/d	-	-	18	8
Average Selling Price – Crude Oil - $/bbl	-	-	49.93	49.93
NGL Production – bbl/d	-	-	18	8
Average Selling Price – NGL - $/bbl	-	-	46.79	46.79
Royalties at 6:1 - $/boe	4.54	4.56	7.46	6.17
Operating Expenses at 6:1 - $/boe	5.87	3.89	4.85	4.64
Field netback at 6:1 - $/boe	30.88	27.80	26.07	27.17
General and administrative expenses	227,237	186,233	422,092	835,562

** The Company commenced operations on June 1, 2004 when it acquired assets under a Plan of Arrangement entered into by Provident Energy Trust, Provident Energy Ltd., Olympia Energy Inc. and Accrete Energy Inc.*

SECTION 3 FEATURES AND BENEFITS

OPERATIONAL ACTIVITIES

Production

	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Oil (bbl/d)	224	18	123	8
NGL (bbl/d)	523	18	325	8
Total Oil/NGL (bbl/d)	747	36	448	16
Gas (mcf/d)	8,810	1,262	4,966	1,057
Total (boe/d)	2,216	246	1,276	192

NATURAL GAS PRODUCTION (mcf/d)

	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	43	106	79	177
Boltan	644	654	528	664
Claresholm	3,486	251	1,389	109
Harmattan	4,637	251	2,970	107
Total	8,810	1,262	4,966	1,057

CRUDE OIL SALES (bbl/d)

	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	-	-	-	-
Boltan	-	-	-	-
Claresholm	33	-	10	-
Harmattan	191	18	113	8
Total	224	18	123	8

NATURAL GAS LIQUIDS SALES (bbl/d)

	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	-	-	-	-
Boltan	2	7	3	3
Claresholm	23	1	8	1
Harmattan	498	10	314	4
Total	523	18	325	8

The first phase of a major infrastructure project at Harmattan was completed late in December 2004. The 9 wells (8.1 net) drilled in the 2004 drilling program were placed on stream at that time. 23 (15.6 net) wells drilled in the 2005 drilling program were placed on stream at various times during 2005. Harmattan wells are oil wells that produce significant amounts of associated solution gas. Flush volumes from the initial production of the wells tend to give way to a more sustainable level after a few months. Production from the area can vary significantly day to day as wells are tested, brought on stream and overcome initial teething problems related to their individual characteristics. The company is expending considerable effort optimizing production from this area. A large increase in production at Harmattan reflects the success that resulted from intense drilling activity in the third quarter that saw eight high working interest wells drilled.

Production volumes at Boltan were less than anticipated during the first half of the year because testing of several successful wells drilled in the area by others caused erratic production from Accrete's wells. The Company constructed a compression facility, leased a compressor and installed infrastructure improvements during the third quarter allowing Accrete's wells to access a gas plant that had the capacity to process its natural gas and achieve stable production levels for the fourth quarter 2005.

At Claresholm, the Company's wells were shut in in May when the operator of the processing facility to which company gas is shipped, limited the processing throughput available to Accrete. Gas began to flow again after a company owned gas plant was constructed and commissioned at the beginning of September.

REVENUE

Total Sales

($)	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Oil	1,426,572	82,165	3,159,801	82,165
NGL	2,258,794	79,670	4,700,025	79,670
Gas	9,481,051	711,144	17,898,073	1,398,981
Processing	33,481	-	87,085	-
Total	13,199,898	872,979	25,844,984	1,560,816

Natural Gas Sales Revenue

($)	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	42,955	83,465	226,862	238,471
Boltan	667,420	319,374	1,697,325	852,205
Claresholm	3,968,747	165,729	5,666,577	165,729
Harmattan	4,801,929	142,576	10,307,309	142,576
Total	9,481,051	711,144	17,898,073	1,398,981

Crude Oil Sales Revenue

($)	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	-	-	-	-
Boltan	-	-	-	-
Claresholm	212,887	-	249,277	-
Harmattan	1,213,685	82,165	2,910,524	82,165
Total	1,426,572	82,165	3,159,801	82,165

Natural Gas Liquids (NGL) Sales Revenue

($)	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	-	-	-	-
Boltan	25,329	35,044	80,374	35,044
Claresholm	141,258	9,188	211,131	9,188
Harmattan	2,092,207	35,478	4,408,520	35,478
Total	2,258,794	79,670	4,700,025	79,670

Processing Revenue

($)	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	-	-	-	-
Boltan	-	-	-	-
Claresholm	(4,250)	-	17,000	-
Harmattan	37,731	-	70,085	-
Total	33,481	-	87,085	-

The resolution of regulatory issues together with increased volumes from new wells that were put on stream, coupled with record high prices, caused sales to increase.

Natural gas sales from the Claresholm and Boltan areas increased commensurate with the increase in volumes and natural gas prices.

Oil sales increased because of increased volumes and record high prices.

PRODUCT PRICES

Natural Gas Prices ($/mcf)

	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	10.82	8.56	7.82	6.30
Boltan	11.26	5.31	8.81	6.00
Claresholm	12.37	7.10	11.18	7.10
Harmattan	11.26	6.23	9.51	6.23
Average Price	11.70	6.11	9.87	6.18

Crude Oil Sales Prices ($/bbl)

	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	-	-	-	-
Boltan	-	-	-	-
Claresholm	68.52	-	69.86	-
Harmattan	69.24	49.93	70.26	49.93
Average Price	69.13	49.93	70.23	49.93

Natural Gas Liquids (NGL) Sales Prices ($/bbl)

	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Atlee-Buffalo	-	-	-	-
Boltan	59.46	54.42	62.13	54.52
Claresholm	69.38	42.93	71.59	42.93
Harmattan	45.63	41.45	38.42	41.45
Average Price	46.75	46.79	39.50	46.79

The average natural gas price realized by Accrete rose in 2005, mirroring the increases in the Nymex and AECO index prices. Claresholm area natural gas is higher in heating content because it includes ethanes and therefore it normally commands a higher price.

Continued strength in world oil prices is reflected in the increased crude oil price realized by Accrete.

At Harmattan, NGLs comprise a considerable portion of ethanes which are relatively low priced. Claresholm NGL's are higher in pentanes, which command higher prices. NGL's in the other areas comprise a blended product stream in which lower priced products bring down the overall price received.

ROYALTIES

	3 Months Ended December 31, 2005		3 Months Ended December 31, 2004		12 Months Ended December 31, 2005		7 Months Ended December 31, 2004	
Area	Total $	Rate	Total $	Rate	Total $	Rate	Total $	Rate
Atlee-Buffalo	4,539	11%	14,784	18%	36,045	16%	53,417	22%
Boltan	57,628	8%	27,630	8%	149,819	8%	72,456	8%
Claresholm	1,183,705	27%	51,947	30%	1,570,574	26%	51,947	30%
Harmattan	2,607,631	32%	75,327	29%	4,946,047	28%	75,327	29%
Total	3,853,503	29%	169,688	19%	6,702,485	26%	253,147	16%

Crown royalties, net of Alberta Royalty Tax Credit, were $3,121,740. Total gross overriding royalties were $675,846 and freehold royalties totaled $55,917. Crown royalties are up generally due to an increase in price because they are price sensitive. Atlee Buffalo royalties are low because they are at a low productivity rate. Boltan production enjoys a Deep Gas Royalty Holiday. Harmattan royalties are increasing due to increasing Crown rates and increased production from freehold and farm in wells.

Production and Transportation Expenses

($)	3 Months Ended December 31, 2005		3 Months Ended December 31, 2004		12 Months Ended December 31, 2005		7 Months Ended December 31, 2004	
Area	$	$/boe	$	$/boe	$	$/boe	$	$/boe
Atlee-Buffalo	3,867	5.84	(2,471)	(1.66)	56,756	11.74	9,667	1.53
Boltan	129,273	12.55	46,456	4.34	268,301	8.03	114,626	4.71
Claresholm	272,501	4.65	35,799	9.05	413,481	4.54	35,799	9.05
Harmattan	590,114	4.39	30,490	4.75	1,615,603	4.80	30,490	4.75
Total	995,755	4.88	110,274	4.87	2,354,141	5.05	190,582	4.64

Atlee Buffalo is a very minor part of the Company's total operation. The high annual cost relates to adjustments from prior periods processed in the first quarter 2005.

Costs in the Boltan area for the 3 months ended December 31, 2005 include one time start up costs incurred in connection with the start up of the new compressor. This also influenced the year to date costs for Boltan.

The high costs for the 3 months ended December 31, 2004 for the Claresholm area reflect start up costs for the area.

The remainder of the costs on a per barrel basis were in line with budget figures.

Transportation expense totaled $87,352 for the three month period ending December 31, 2005. The total transportation expense per period will increase as natural gas production increases in the Claresholm and Harmattan areas. Up until November, Boltan natural gas was sold at the plant gate into the Alliance gas stream and very little transportation cost was incurred in 2005.

FIELD AND CORPORATE NETBACKS

Field Netback

($/boe)	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Atlee-Buffalo	53.65	43.78	28.25	27.78
Boltan	49.98	22.98	40.93	28.78
Claresholm	49.13	21.25	45.77	21.25
Harmattan	36.79	24.18	33.10	24.18
Field Netback	40.76	26.17	35.83	27.17

Field net backs basically reflect the effect of higher product prices and the effect of lower per barrel operating costs as volumes increase offset in part by increasing royalty costs.

Corporate Netback

	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Area				
Field Netback	8,350,640	593,017	16,788,358	1,117,087
General and Administrative	1,163,495	422,092	2,878,614	835,562
Corporate Netback	7,187,145	170,925	13,909,744	281,525

Corporate netback increased with volumes and prices offset in part by increases in general and administrative expenses.

GENERAL AND ADMINISTRATIVE EXPENSE

($)	3 Months Ended December 31, 2005	3 Months Ended December 31, 2004	12 Months Ended December 31, 2005	7 Months Ended December 31, 2004
Salary & Benefits	1,141,078	473,517	2,524,428	596,905
General Office Expenses	367,816	77,462	1,247,893	464,209
	1,508,894	550,979	3,772,321	1,061,114
Recoveries	(345,399)	(128,887)	(893,707)	(225,552)
Total	1,163,495	422,092	2,878,614	835,562

Salary and benefits increased in the fourth quarter due to the accrual of approximately $600,000 of performance bonuses that were paid to employees of the Company. The Company currently employs 16 full time staff members.

The increase in general office expenses relates to increased costs for rent, insurance and most other general costs.

General and administrative expenses are recovered through billings to participants in company operated projects in accordance with standard industry practice. The increase in recoveries relates to the increase in capital expended on capital projects.

INTEREST EXPENSE

There was no debt outstanding at December 31, 2004. At December 31, 2005, Accrete's bank indebtedness was $14.6 million. Accrete utilized its operating line of credit and cash flow to fund its 2005 capital program. Interest expense of $323,358 was incurred in 2005 as a result.

STOCK-BASED COMPENSATION

Stock-based compensation is accounted for using the fair value method. Under the fair value method of accounting, this compensation expense is recorded in the earnings statement over the vesting period. In the second quarter of 2005, Accrete recognized options previously disclosed but deemed to be not granted until the Annual General Meeting was held on May 5, 2005. This retroactive granting led to an abnormal cost for the year.

DEPLETION DEPRECIATION & ACCRETION

Depletion, depreciation and accretion of the asset retirement obligation for the three month period and twelve month periods ended December 31, 2005 totaled $2,395,000 or $11.74 per boe, and $5,511,000 or $11.83 per boe respectively. Costs of $1,440,000 relating to unproved properties have been excluded from costs subject to depletion for the 3 month period ended December 31, 2005.

INCOME TAXES

The Company is not liable for any cash taxes.

As at December 31, 2004, all expenditures needed to satisfy flow through share requirements had been incurred.

The tax benefits related to the $2,553,500 of flow through shares were renounced in February 2005 with an effective date of renunciation of December 31, 2004.

At December 31, 2005, the Company's exploration and development expenditures and undepreciated capital costs total $54,256,000 and comprise:

	$
Cumulative Canadian Oil and Gas Property Expense	4,593,000
Cumulative Canadian Development Expense	24,954,000
Cumulative Canadian Exploration Expense	8,660,000
Undepreciated Capital Cost	16,049,000
	54,256,000

CASH FLOW

Cash flow for the three months ended December 31, 2005 was $6,991,000 ($0.46 per share) and $13,536,486 ($0.89 per share) for the twelve months ended December 31, 2005.

CAPITAL EXPENDITURES

Capital expenditures for the twelve months ending December 31, 2005:

	12 Months Ended Dec 31, 2005	3 Months Ended Dec 31, 2005	3 Months Ended Sept 30, 2005	3 Months Ended June 30, 2005	3 Months Ended March 31, 2005
	$	$	$	$	$
Drilling and Completions	36,046,410	10,154,113	10,236,811	7,108,992	8,546,494
Equipping and Tie-Ins	13,229,521	3,236,045	4,741,750	2,991,419	2,260,306
Office Equipment	42,171	(627)	992	24,044	17,763
Total Cash Expenditures	49,318,102	13,389,531	14,979,553	10,124,455	10,824,563
Allowance for future restoration expenditures	644,350	277,117	226,497	63,264	127,474
Total	49,962,452	13,616,647	15,206,050	10,187,719	10,952,037

During the fourth quarter the Company drilled 12 wells (7.4 net) comprising 6 (3.4 net) oil wells, 2 (1.6 net) gas wells and 4 (2.4 net) dry holes. That brings the total number of wells to 32 wells (21.8 net) during the year. Of these, 22 (14.8 net) were classified as oil wells, 5 (3.6 net) were classified as gas wells and 5 (3.4 net) were dry holes. A success rate of 84% was achieved.

LIQUIDITY AND CAPITAL RESOURCES

	$
Exploration and development program funding	
Cash, Beginning of Year	539,678
Cash flow	13,536,486
Change in non-cash working capital	7,083,132
Increase in Bank Debt	14,598,185
Stock Issuance, net	13,560,622
Cash, end of period	-
Capital expenditures during the period	49,318,103

Accrete intends to fund its capital expenditure program from internally generated cash flow, debt, and new equity if available on favorable terms.

At December 31, 2005 the Company's credit facility comprises a Revolving Operating Demand Loan facility with a credit limit of $25,000,000, along with a Non-revolving Acquisition/Development Demand Loan facility with a credit limit of $5,000,000.

The Revolving Operating Demand Loan facility bears interest at bank prime plus one eighth percent. This facility has no specific terms of repayment aside from the bank's right of demand and periodic review. The Non-revolving Acquisition/Development Demand Loan facility bears interest at bank prime plus one percent, is repayable in monthly installments over the half-life of the reserves being financed and is subject to the bank's right of demand and periodic review.

The capital intensive nature of the Company's activities may create a negative working capital position from time to time and, in fact, at December 31, 2005, negative working capital, including bank debt was $27,862,224. Accrete was technically in default of its banking agreement that stipulated that it must maintain a working capital ratio of 1:1.

The Company's Bank has waived the working capital requirement and has proposed a new banking facility that would include a Revolving Operating Demand Loan facility with a credit limit of $40,000,000.

The underlying borrowing base for this facility was determined by the bank after the consideration of the sale of the Boltan property.

The new banking facility will replace the facility that was in place at year-end and that, together with the proceeds derived from the sale of the Boltan property, will alleviate any event of default that existed at that time and will provide adequate funding for the Company's 2006 drilling program.

On March 16, 2006, the Company entered into an agreement to sell its interests in the Boltan area of Alberta for a total of $9.55 million prior to the purchase price adjustments. The effective date of this sale is January 1, 2006. The sale is expected to close on or prior to May 1, 2006.

The Company's drilling program is very flexible and can be tailored to available funds. Success in its focus areas means that additional funds will be raised through bank debt or additional share issuances or both to expedite the drilling program. Commodity prices and production volumes have a large impact on the ability of the Company to generate adequate cash flow to meet its obligations. A prolonged decrease in commodity prices would negatively affect cash flow from operations and would also likely result in a reduction in the amount of bank loan available. If the capital expenditure program does not result in sufficient additional reserves and/or production it would likely have a negative impact on the Company's liquidity. A lack of or restricted access to natural gas processing facilities would have a similar effect. A prolonged decrease in commodity prices would also likely affect the availability of funds through the public equity market. See the caption entitled "Risks" for further items that could affect liquidity.

Management expects that the public capital market will remain buoyant and that funds will be readily available. New equity will be used in such funding if available on favorable terms.

OUTLOOK

The Company will continue to focus its development efforts on its acreage at Harmattan and Claresholm with a view to increasing reserves and production.

The Company will continue to seek exploitation opportunities that offer multi-zone potential in areas that it can apply it's technical expertise to add value for its shareholders.

CRITICAL ACCOUNTING ESTIMATES

Oil and Gas Accounting

The Company follows the full-cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas properties, net of government incentives, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells and related plant and production equipment costs.

Proceeds on disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs with no gains or losses recognized unless such disposition results in a change of 20% or more in the depletion rate.

Capitalized costs, together with estimated future capital costs associated with proved reserves are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. Unproved properties are excluded from the depletion base until it is determined whether proved reserves are attributable to the properties or impairment occurs.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test").

Oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss will be recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost or market value unproved properties. The cash flows are estimated using future product prices and costs and are discounted using the risk free rate.

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost which is depleted using the unit-of- production method. The liability is adjusted in each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows.

Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after a considerable lapse of time. Accordingly, the actual income tax liability may differ significantly from the liability estimated or recorded.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates, including estimates of revenues, royalties and production costs at a specific reporting date but for which actual revenues and costs have not yet been received; and estimates on capital projects which are in progress or recently completed where actual costs have not been received at a specific reporting date.

The Company ensures that the individuals with the most knowledge of the activity are responsible for the estimate. These estimates are then reviewed for reasonableness and past estimates are compared to actual results in order to make informed decisions on future estimates.

Stock Based Compensation

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest and will account for actual forfeitures as they occur. The fair value of each stock option is determined at each grant date using the Black-Scholes model.

RISKS

Accrete, in common with other companies participating in the oil and gas business in Canada, is exposed to a number of business risks. These risks can be categorized as operational, financial and regulatory, with some beyond the Company's control.

Operational risks include finding and developing oil and natural gas reserves on an economic basis, reservoir production performance, commodity marketing risk and the risk that employees and contract services can be hired and retained on a cost effective basis.

Accrete has mitigated these risks to the extent possible by employing a team of highly qualified professionals, providing a compensation scheme that will reward above average performance and by maintaining long term relationships with its suppliers.

Accrete also maintains an insurance program that is consistent with industry practice that should protect against the loss of assets through fire, blowout, pollution and other untoward events and the resultant business interruption.

Accrete maintains an inventory of prospects that are within the scope of the Company's key areas and are strategically diverse so as to minimize the Company's exposure to drilling risk. Furthermore, Accrete employs the latest technological methods in that quest.

Commodity prices and production volumes have a large impact on the ability for the Company to generate adequate cash flow to meet its obligations. A prolonged decrease in commodity prices would negatively affect cash flow from operations and would also likely result in a reduction in the amount of bank loan available. If the capital expenditure program does not result in sufficient additional reserves and/or production it would likely have a negative impact on the Company's liquidity. A lack of, or restricted access to natural gas processing facilities would have a similar effect. A prolonged decrease in commodity prices would also likely affect the availability of funds through the public equity market. See the caption entitled "Risks" for further items that could affect liquidity.

Financial risks include commodity prices, and to some extent, interest rates and the Canadian/US exchange rate. The Company may employ financial instruments, when prudent, to lessen the effects of such risks, but it has no such contracts in place at this time.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Accrete will result in new discoveries of oil or natural gas in commercial

quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Accrete depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Accrete will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Accrete may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated, and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on Accrete and its future results of operations, liquidity and financial condition.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company is made known to them by others within those entities. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

NON GAAP DEFINITIONS

The forgoing contains the term "cash flow from operations" and "netbacks" which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as an indicator of the Company's performance. Accrete's definition of cash flow from operations and/or netbacks may not be comparable to that reported by other companies. The reconciliation between income and funds flow may be found in the statement of cash flows in the financial statements. The Company evaluates its performance based on net earnings and cash flow. The Company considers cash flow a key measure as it illustrates the Company's ability to meet obligations necessary to repay debt and fund future growth through capital investment. Cash flow per share is presented in this discussion

using the weighted average shares outstanding in a manner consistent with that used to calculate earnings per share.

The reader is cautioned that the use of the term boes ("barrels of oil equivalent") may be misleading particularly when used in isolation. A boe conversion of 6 mcf to 1 boe may not represent a value equivalency at the wellhead.

As the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, the unaudited interim financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in the financial statements.

DISCLAIMERS:

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Accrete's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Accrete believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Accrete is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

FINANCIAL SPECIFICATIONS

Fig. 12

MANAGEMENT'S REPORT

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying financial statements of Accrete Energy Inc. Financial and operating information presented throughout this Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP were appointed by the Company's Board of Directors to conduct an audit of the financial statements of the Company so as to express an opinion on the financial statements. Their examination included a review and evaluation of the Company's internal control systems and included such test and procedures, as they considered necessary, to provide a reasonable assurance that the financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

(See Fig.12)

Peter M. Salamon
President and Chief Executive Officer

Thomas R. Dalton
Vice President, Finance & Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Accrete Energy Inc. as at December 31, 2005 and 2004 and the statements of income (loss) and retained earnings (deficit) and cash flows for the year ended December 31, 2005 and for the period from June 1, 2004 (date of commencement of operations) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year then ended December 31, 2005 and the period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

KPMG LLP.

Chartered Accountants
Calgary, Canada
March 15, 2006

Fig.13
Counting the beans

SECTION 4
FINANCIAL SPECIFICATIONS

ACCRETE ENERGY INC.

BALANCE SHEET

	December 31, 2005	December 31, 2004
ASSETS	$	$
Current assets		
Cash	-	539,678
Accounts receivable	8,220,761	3,180,061
Prepaid expenses	64,192	71,773
	8,284,953	3,791,512
Property and equipment (note 3)	66,082,769	21,559,315
	74,367,722	25,350,827
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	21,548,992	9,432,742
Bank indebtedness (note 4)	14,598,185	-
	36,147,177	9,432,742
Asset retirement obligation (note 6)	1,152,101	485,400
Future income tax (note 7)	3,090,924	-
	40,390,202	9,918,142
SHAREHOLDERS' EQUITY		
Share capital (note 5)	29,617,526	16,594,505
Contributed surplus	2,593,179	356,836
Retained Earnings (Deficit)	1,766,815	(1,518,656)
	33,977,520	15,432,685
	74,367,722	25,350,827

See accompanying notes to financial statements

Approved by the Board of Directors:

P.Salamon

B.Mellum

ACCRETE ENERGY INC.

STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

	Year Ended December 31, 2005	7 Months Ended December 31, 2004
REVENUE	$	$
Petroleum and natural gas revenue	25,844,984	1,560,816
Royalties (net of Alberta Royalty Tax Credit)	(6,702,485)	(253,147)
	19,142,499	1,307,669
EXPENSES		
Production expenses	2,162,594	190,582
Transportation expenses	191,547	-
General and administrative, net of recoveries	2,878,614	835,562
Interest Expense	323,258	-
Stock based compensation cost (note 5)	2,236,344	356,836
Depletion, depreciation and accretion	5,511,348	500,511
	13,303,705	1,883,491
Income (Loss) before income taxes	5,838,794	(575,822)
Future income taxes (note 7)	(2,553,323)	(197,209)
Net income (loss) for the period	3,285,471	(773,031)
Deficit arising on transfer of assets (note 2)	-	(745,625)
Deficit – beginning of period	(1,518,656)	-
Retained Earnings (Deficit) – end of period	1,766,815	(1,518,656)
Weighted average number of shares (note 5)	14,328,826	11,123,123
Income (Loss) per share:		
Basic	0.23	(0.07)
Diluted	0.21	(0.07)

See accompanying notes to financial statements

SECTION 4 FINANCIAL SPECIFICATIONS

ACCRETE ENERGY INC.

STATEMENTS OF CASH FLOW

	Year Ended December 31, 2005	7 Months Ended December 31, 2004
Cash provided by (used in):	$	$
OPERATING ACTIVITIES		
Net income (loss) for the period	3,285,471	(773,031)
Items not affecting cash:		
Stock based compensation cost	2,236,344	356,836
Future income taxes	2,553,323	197,209
Depletion, depreciation and accretion	5,461,348	500,511
	13,536,486	281,525
Change in non-cash working capital (note 9)	(865,203)	168,224
	12,671,283	449,749
INVESTING ACTIVITIES		
Property and equipment additions	(49,318,103)	(17,587,115)
Change in non-cash working capital (note 9)	7,948,335	6,012,684
	(41,369,768)	(11,574,431)
FINANCING ACTIVITIES		
Bank Debt	14,598,185	-
Issue of capital stock	13,560,622	11,664,360
	28,158,807	11,664,360
Increase (decrease) in cash	(539,678)	539,678
Cash – beginning of period	539,678	-
Cash – end of period	-	539,678
Supplemental Information : Interest Paid	323,258	-

See accompanying notes to financial statements

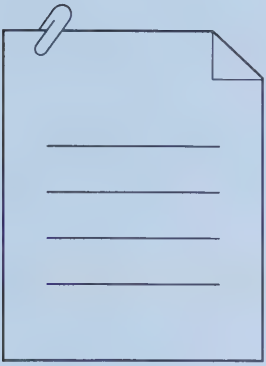


Fig.14
These notes provide background information for some of the numbers found in the financial statements. Please refer to the "Shareholder Assistance" section if in doubt about this information.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2005 and for the period ended December 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

As the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Accrete Energy Inc. ("Accrete") commenced operations on June 1, 2004 when it acquired assets under a Plan of Arrangement entered into by Provident Energy Trust, Provident Energy Ltd., Olympia Energy Inc. and Accrete Energy Inc.

Oil and Gas Operations
Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party.

The Company follows the full-cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas properties, net of government incentives, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells and related plant and production equipment costs.

Proceeds on disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs with no gains or losses recognized unless such disposition results in a change of 20% or more in the depletion rate.

Capitalized costs, together with estimated future capital costs associated with proved reserves are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. Unproved properties are excluded from the depletion base until it is determined whether proved reserves are attributable to the properties or impairment occurs.

Office furniture and fixtures are recorded at cost and are depreciated over their useful lives on a declining balance basis at 20% per annum.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test").

Oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss will be recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost or market value of unproved properties. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free rate of interest.

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset, known as the asset retirement cost, which is depleted using the unit-of- production method. The liability is adjusted in each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows.

Joint Ventures
A significant portion of the Company's exploration and production activities are conducted jointly with others and the financial statements reflect only the Company's proportionate interest in such activities.

Stock Based Compensation
The Company has an employee stock option plan. The compensation cost in respect of this plan is recognized in the financial statements using the fair market value method and the cost is recognized over the vesting period of the underlying security. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest and will account for actual forfeitures as they occur.

Financial Instruments
The Company may enter into financial instruments and physical delivery commodity contracts from time to time to protect future earnings and cash flows from the potential impact of fluctuating commodity prices and not for speculative purposes. Gains or losses on these contracts will be included in revenues at the time the underlying commodity is sold or when the positions are settled.

To date the Company has not entered into any such agreements.

The carrying values of the Company's monetary assets and liabilities approximate their fair values.

Measurement Uncertainty
Amounts recorded for depreciation and depletion, the provision for asset retirement and abandonment costs and amounts used for ceiling test calculations are based on estimates of oil and natural gas reserves. The Company's reserve estimates are reviewed annually by an independent engineering firm. By their nature, these estimates of reserves and future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

Per Share Amounts
The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. This method assumes that proceeds received from the exercise of in-the-money stock options and other dilutive instruments are used to purchase common shares at the average market price during the year.

Flow through Shares
The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liabilities and share capital are adjusted by the estimated cost of the renounced income tax deductions when the related flow through expenditures are renounced to investors.

Income Taxes
The Company follows the asset and liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability on the balance

sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using the rates that are anticipated to be in effect in the periods that the temporary differences are expected to reverse.

2. TRANSFER OF ASSETS AND COMMENCEMENT OF OPERATIONS

Under the Plan of Arrangement, Olympia Energy Inc. transferred certain producing and exploratory oil and natural gas properties to the Company and each former shareholder of Olympia received one tenth of a common share of the Company for each Olympia share owned.

A total of 4,263,936 common shares of the Company were issued pursuant to the plan.

As this was a related party transaction, assets were transferred at a book value of $1,125,284 for unproved exploratory properties and $2,393,027 for developed but non- producing properties.

A private placement of 5,000,000 common shares at an issuance price of $1.00 per share was made concurrently with the plan.

An amount of $745,625 was booked to share capital and to deficit to increase the stated value of the shares issued to $1.00 per share, being the fair value of the shares issued.

3. PROPERTY AND EQUIPMENT

	2005	2004
	$	$
Petroleum and natural gas properties and equipment	71,908,781	21,988,499
Furniture, fixtures and other	110,476	68,305
	72,019,257	22,056,804
Less: Accumulated depletion and depreciation	5,936,488	497,489
	66,082,769	21,559,315

At December 31, 2005 costs of $1,440,000 ($ 100,000 at December 31, 2004) with respect to unproved properties have been excluded from costs subject to depletion. Direct salary costs related to geological and geophysical personnel in the amount of $361,000 have been charged to petroleum and gas properties during the year ($116,000 in 2004). No other salary or overhead charges have been capitalized.

4. BANK INDEBTEDNESS

At December 31, 2005 the Company's credit facility comprises:

A Revolving Operating Demand Loan facility with a credit limit of $25,000,000
A Non-revolving Acquisition/Development Demand Loan facility with a credit limit of $5,000,000

The Revolving Operating Demand Loan facility bears interest at bank prime plus one eighth percent.

This facility has no specific terms of repayment aside from the bank's right of demand and periodic review.

The Non-revolving Acquisition/Development Demand Loan facility bears interest at bank prime plus one percent is repayable in monthly instalments over the half-life of the reserves being financed and is subject to the bank's right of demand and periodic review.

Both credit facilities are secured by a general assignment of book debts, a $50,000,000 debenture with a first floating charge over all assets with a negative pledge and an undertaking to provide fixed charges on the Company's major producing reserves at the request of the bank.

At December 31, 2004 the Company's credit facility comprised a non-revolving Acquisition/Development Demand Loan facility with a total available credit amount of $2,500,000 which bore interest at bank prime

plus one percent, was repayable in monthly instalments over the half-life of the reserves being financed and was subject to the bank's right of demand and periodic review.

Subsequent to year-end, the Company's Bank proposed a new banking facility that would include a Revolving Operating Demand Loan facility with a credit limit of $40,000,000. The underlying borrowing base for this facility was determined by the Bank after the consideration of the sale of the Boltan property referred to in Note 11 to these financial statements.

5. SHARE CAPITAL

Authorized:
An unlimited number of common voting shares and an unlimited number of preferred shares issuable in series for which the directors may fix , among other things, the rights, privileges, restrictions, conditions, voting rights, rates, method of calculation and dates of payment of dividends and terms of redemption, purchase and conversion if any, and any other provisions.

Issued and outstanding:

Common Voting Shares	**Number of Shares**	**Amounts $**
Issued upon transfer from Olympia Energy Inc.	4,263,936	4,263,936
Issued for oil and gas properties	469,000	469,000
Issued on private placement – flow through shares	2,553,500	2,553,500
Issued on private placement	2,446,500	2,446,500
Issued on private placement	3,500,000	7,175,000
Share issuance costs (net of tax)		(313,431)
Balance, December 31, 2004	13,232,936	16,594,505
Tax effect of flow through shares		(858,487)
Issued on private placement	2,000,000	14,500,000
Share issuance costs (net of tax)		(618,492)
Balance, December 31, 2005	15,232,936	29,617,526
- basic weighted average	14,328,826	
- diluted	15,472,900	

The following table reconciles the common shares used in calculating net earnings per common share:

	December 31, 2005	**December 31, 2004**
Weighted average common voting shares outstanding - basic	14,328,826	11,123,123
Effect of dilutive stock options	1,144,074	547,766
Weighted average common shares outstanding - diluted	15,472,900	11,670,889

The Company incurred losses for the period ended December 31, 2004. The use of the diluted number of shares outstanding in the calculation of diluted earnings per share is considered antidilutive. Accordingly, the basic weighted average number of common shares outstanding was used in the calculation of diluted loss per share the period then ended.

Tax benefits related to the $2,553,500 of flow through shares were renounced to flow through shareholders in February 2005.

Stock Options
Under the terms of the Accrete Energy Inc. 2004 Incentive Stock Option Plan, as amended, (the "Plan"), directors, officers, employees and consultants (the "Participants") are eligible to be granted options to purchase common shares. The Plan provides for granting up to 1,926,394 common shares.

The maximum number of option shares that may be reserved for issuance to any one Participant under the Plan cannot exceed 5% of the issued and outstanding common shares. The exercise price under the Plan is defined by the Plan to be the closing price on the principal stock exchange on which the common shares are

traded on the last business date preceding the date of grant or if the common shares did not trade on that date, the weighted average price for the five trading days preceding the date of grant. The vesting of stock options is determined by the board of directors and the term, as also determined by the board of directors, cannot exceed five years from the date of grant of such options. A Participant's entitlement under the Plan ceases upon ceasing to be a Participant. If such cessation is involuntary, then the vested and unvested options can be exercised for a period of ninety days after such date. Where a Participant is terminated for cause, the Participant may only exercise those options that have become vested. Where a Participant is terminated by the company without cause, the Participant is entitled to exercise stock options that have vested during the notice period or in the event of compensation being paid in lieu of notice, for 21 days after ceasing to be a Participant. Options granted under the Plan are not assignable and no financial assistance is extended to optionees. The board of directors is empowered to amend the Plan. Any amendment to the Plan is subject to the receipt of necessary regulatory approvals and any amendment required by applicable law or regulatory policy to be approved by shareholders does not become effective until so approved.

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The following table summarizes information about stock options outstanding at December 31, 2005:

Grant Price	Options Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable (Vested)	Weighted Average Exercise Price ($/Share)
$1.00	926,845	3.4 Years	617,896	$1.00
$2.30	40,000	3.8 Years	13,333	$2.30
$2.60	395,000	3.9 Years	131,667	$2.60
$2.89	5,000	3.9 Years	1,667	$2.89
$3.12	40,000	3.9 Years	13,333	$3.12
$4.45	50,000	4.2 years	-	$4.45
$7.01	9,000	4.4 years	-	$7.01
	1,465,845	3.9 Years	777,896	$3.61

The options granted have a term of five years to expiry. All but the $1.00 stock options vest equally over a three year period commencing on the first anniversary of the date of grant. The $1.00 stock options vest equally over a three year term commencing with the date of grant.

The Company has accounted for its employee stock options granted using the fair value method. The fair value for such options was estimated at the date of grant using a Black-Scholes Option Pricing Model to be $3,873,193 ($2.64 per option granted). This value is charged to stock based compensation cost over the vesting period. A total of $395,597 was charged in the fourth quarter of 2005, and $2,236,344 was charged for 2005. A total of $356,836 was charged in 2004.

The following assumptions were used in calculating the fair value:

	$1 Options	All Others
Volatility factor of expected market price	45%	48%
Weighted average risk-free interest rate (%)	4.5	3.7
Dividend yield (%)	-	-
Weighted average expected life of options (years)	4	5

6. ASSET RETIREMENT OBLIGATION

Asset retirement obligation comprises:

	December 31, 2005	December 31, 2004
	$	$
Liabilities incurred	1,076,730	482,378
Accretion expense	72,349	3,022
Accumulated Accretion Expense to December 31, 2004	3,022	-
Balance, end of period	1,152,101	485,400

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows to settle the asset retirement obligation is approximately $3,089,071 which will be incurred over the next twenty five years. A credit adjusted risk-free rate of 7% was used to calculate the fair value of the obligations.

7. INCOME TAXES

As at December 31, 2004 all expenditures that were required to satisfy requirements of the flow through shares had been incurred.

The tax benefits related to the $2,553,500 of flow through shares were renounced in February 2005 with an effective date of renunciation of December 31, 2004. Accordingly, a tax liability of $858,487 was recorded in the first quarter of 2005 to reflect the tax effect of the renunciation.

At December 31, 2005, the Company's exploration and development expenditures and undepreciated capital costs total $54,256,000. These costs may be carried forward indefinitely to reduce future taxable income.

The following reconciles the difference between income tax recorded and the expected income tax expense obtained by applying the expected income tax rate to earnings before taxes:

	For the 12 Months Ended December 31, 2005	**For the 7 Months Ended December 31, 2004**
	$	$
Income/(Loss) before income taxes	5,838,794	(575,822)
Expected income tax recovery at the combined federal and provincial statutory rate of 37.62%	2,196,553	(222,382)
Crown royalties	1,406,293	51,241
Resource allowance	(1,069,887)	(39,134)
Alberta Royalty Tax Credits	(122,261)	-
Stock based compensation cost	841,314	137,810
Attributed crown royalty income	(122,958)	(4,806)
Tax-rate adjustments	(312,866)	-
Other	9,328	2,287
Valuation allowance - reversed	(272,193)	272,193
Future income tax expense	2,553,323	197,209

The following table summarizes the tax effect of temporary differences:

	December 31, 2005	**December 31, 2004**
	$	$
Future income tax assets (liabilities):		
Carrying value of capital assets in excess of tax basis	(3,976,144)	(781,576)
Asset retirement obligation	387,336	187,461
Share issue costs	370,118	167,925
Losses carried forward	-	693,577
Attributed crown royalty income	127,766	4,806
	(3,090,924)	272,193
Less : Valuation Allowance		(272,193)
	(3,090,924)	-

SECTION 4 FINANCIAL SPECIFICATIONS

8. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized on the balance sheets consist of cash, accounts receivable, prepaid expenses, bank indebtedness, and accounts payable and accrued expenses. The fair value of all financial instruments classified as current assets or current liabilities approximate their carrying amounts due to the short-term maturity of these instruments.

A portion of the Company's accounts receivable are from joint venture partners in the oil and gas business and are subject to normal industry credit risk. Purchasers of the Company's petroleum and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment and the carrying value reflects management's assessment of the associated credit risks.

The Company is exposed to fluctuations in commodity prices that are based in foreign currency.

The Company has not entered into any contracts during the year that would have reduced its exposure to fluctuations in commodity prices or exchange rates.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital comprises:

	Twelve Months Ended December 31, 2005	**Seven Months Ended December 31, 2004**
	$	$
Accounts receivable	(5,040,700)	(3,180,061)
Prepaid expenses	7,581	(71,773)
Accounts payable and accrued liabilities	12,116,251	9,432,742
Change in non-cash working capital	7,083,132	6,180,908
Relating to:		
Investing activities	7,948,335	6,012,684
Operating activities	(865,203)	168,224
	7,083,132	6,180,908

10. COMMITMENTS

The Company has entered into various commitments related to the leasing of office premises, office equipment and a compressor used in the Boltan area. The payments due under such leases are as follows:

Contractual obligations	**2006**	**2007**	**2008**	**2009**	**2010**	Thereafter
	$	$	$	$	$	$
Office Premises	188,966	188,966	47,241	-	-	-
Office equipment	18,236	8,897	2,162	901	-	-
Boltan compressor*	252,920	-	-	-	-	-
	460,122	197,863	49,403	901	-	-

*See Note 11 to these financial statements. The Company entered into an agreement to sell its Boltan property subsequent to year end. The lease relating to the Boltan compressor will be assumed by the purchasers of the property on closing of the sale.

11. SUBSEQUENT EVENTS

On March 16, 2006, the Company entered into an agreement to sell its interests in the Boltan area of Alberta for a total of $9.55 million prior to purchase price adjustments. The effective date of this sale is January 1, 2006. The sale is expected to close on or prior to May 1, 2006.

As this sale will not result in a change of 20% or more in the depletion rate, no gain will be recognized in the accounts in future periods.

WARRANTY INFORMATION

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Designed by Iradesso Communications

CORPORATE SPECIFICATIONS

MANAGEMENT

Peter Salamon
President and CEO

Ray Dobek
Executive Vice President, Exploration

Tom Dalton
Vice President, Finance and CFO

Norm George
Vice President,Production and Operations

Andy Kirby
Vice President, Land

Rick Campbell
Vice President, Engineering

DIRECTORS

Brian Mellum - *Lead Director*
Managing Director, Toscana Capital Corporation

John Poetker
Partner, Borden Ladner Gervais LLP

Kenneth Faircloth
Investment Advisor, Retired

Michael Kanovsky
President, Sky Energy Company

Peter Salamon
President and CEO, Accrete Energy Inc.

Ray Dobek
Executive Vice President, Accrete Energy Inc.

BANKER
National Bank of Canada
Calgary, Alberta

AUDITORS
KPMG LLP
Calgary, Alberta

LEGAL COUNSEL
Borden Ladner Gervais LLP
Calgary, Alberta

TERMINOLOGY GUIDE

WTI	West Texas Intermediate
API	American Petroleum Institute
bbl	one stock tank barrel
mbbl	one thousand barrels
bbl/d	barrels per day
boe	barrel of oil equivalent
mboe	thousands of barrels of oil equivalent
boe/d	barrel of oil equivalent per day
NGL	natural gas liquids
mcf	one thousand standard cubic feet
mmcf	one million standard cubic feet
bcf	one billion standard cubic feet
mcf/d	one thousand standard cubic feet per day
mmcf/d	one million standard cubic feet per day
GJ	gigajoule
GJ/d	gigajoules per day
ARTC	Alberta Royalty Tax Credit

HELPFUL HINT:

** Barrel of Oil Equivalency*
A barrel of oil equivalent (boe), is derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil, may be misleading, particularly if used in isolation.

A boe conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

ANNUAL GENERAL MEETING:

Shareholders and future shareholders are invited to attend the annual meeting of shareholders scheduled to be held at 3:00 pm on Wednesday, April 19, 2006 at the Metropolitan Centre 333 - 4th Avenue S.W. Calgary, Alberta.

(see Fig.15)

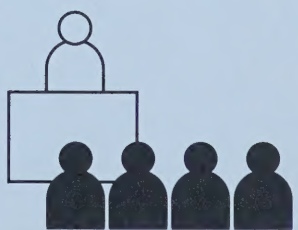

Fig.15
Annual General Meeting

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